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Economic Research

Economic Briefing

US labor market barely recovers in August

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The US labor market barely recovered in August after the disappointing July report. 142 thousand new jobs were created, while the unemployment rate fell to 4.2%. At the same time, however, the increase in jobs in June and July was revised downwards by a total of 86 thousand. The labor market therefore remains a cause for concern. The Federal Reserve is likely to cut interest rates on September 18. However, the report does not provide a clear indication whether policy makers will prefer a move by 25 or 50 basis points.

The data …

In August, job growth in the US amounted to 142 thousand, which was slightly less than expected (consensus 165 thousand, Commerzbank forecast 150 thousand). In addition, the figures for June and July were revised downwards by a total of 86 thousand. The unemployment rate fell from 4.3% to 4.2% after four consecutive monthly increases. Average hourly earnings increased quite strongly by 0.4% from July and by 3.8% from August 2023.

… and our analysis

After the disappointing employment report for July, the big question was to what extent special effects had played a role. We suspected that Hurricane Beryl had dampened job growth in July. In fact, job growth in August was again significantly higher than in July at 142 thousand, although this is also due to the fact that the initially reported increase in July was revised down from 114 thousand to 89 thousand. With the downward revisions to June and July data, the trend has also weakened more than expected (Chart 1). In recent months, the increase in jobs was usually only around 100 thousand.

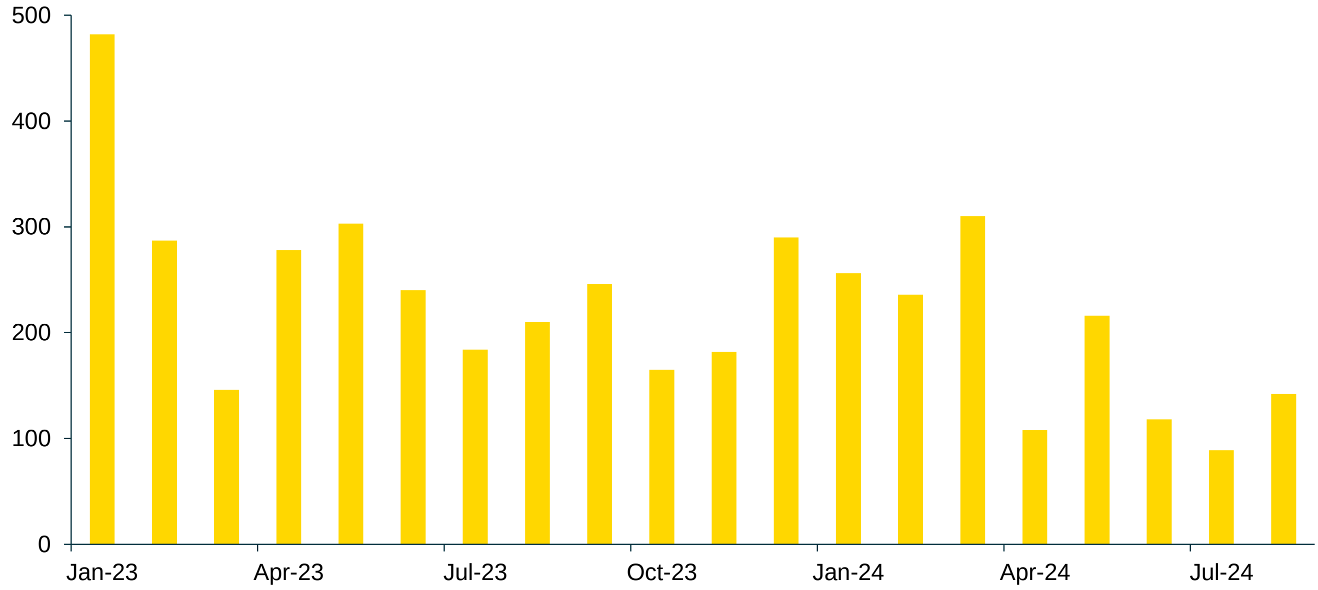
Nevertheless, the average working week lengthened again in August. The total number of hours worked increased slightly more than it had fallen in July.

A month ago, we pointed out that the increase in the unemployment rate was primarily due to the greater supply of labor (partly due to the wave of immigration) and less to demand-related layoffs. Although the unemployment rate fell slightly in August (rounded to two digits from 4.25% to 4.22%), a smaller proportion of those affected now classify themselves as only temporarily unemployed.

In this context, the much-discussed Sahm rule continues to sound the alarm. According to a rule established by economist Claudia Sahm, a recession is imminent if the threemonth average of the unemployment rate rises by 0.5 percentage points or more from its low reached in the previous twelve months. The increase is now 0.57 percentage points, meaning that it is still above the recession threshold after 0.53% in July (Chart 2).

Chart 1 - monthly employment gains slowed to around 100k

nonfarm payrolls, monthly change in thousand



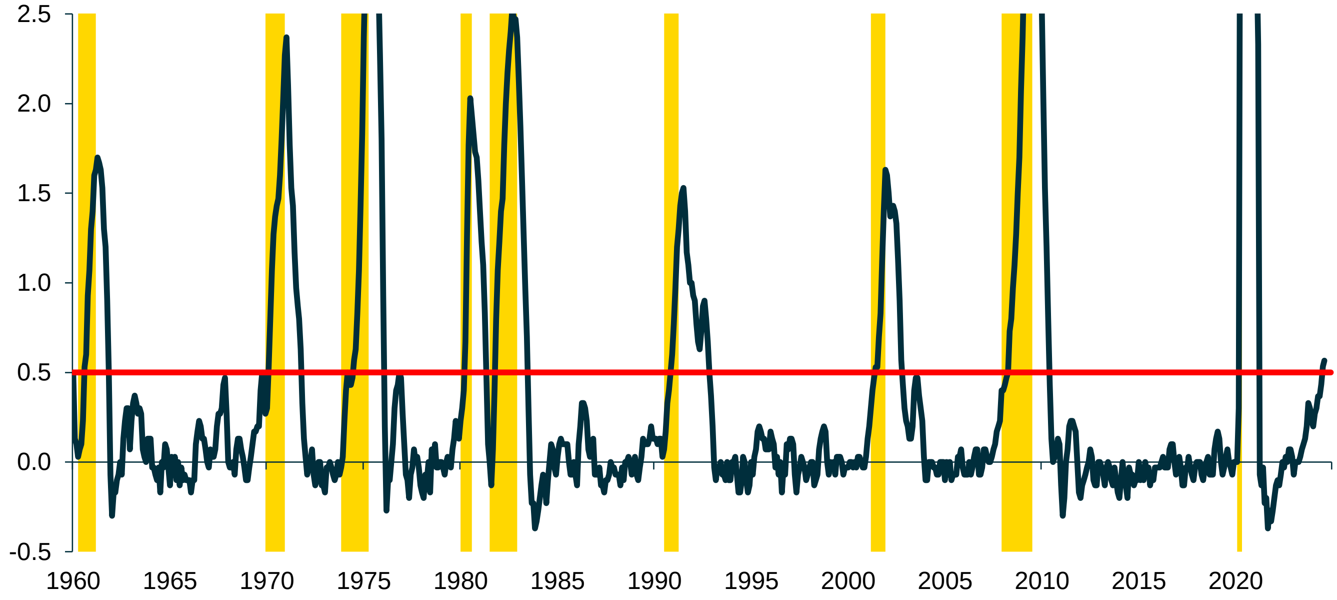
Source: BLS, S&P Global, Commerzbank Research

Average hourly earnings have risen surprisingly strong. However, this measure has conceptual weaknesses. Now that the Atlanta Fed is once again publishing its superior Median Wage Growth Tracker, this figure should be awaited for an assessment of wage pressure.

Bottom line: Today's data is not a disaster, but neither it is the hoped-for relief after a weak July. This is all the more true as employment has recently been regularly revised downwards, meaning that the jobs gain reported for August may represent the situation too favorably.

Chart 2 - Sahm rule remains above critical level

Sahm rule signals the start of a recession when the 3-month moving average of the unemployment rate rises by 0.50 percentage points (red line) or more relative to its low during the previous 12 months. Based on real-time data. Recessions shaded.



Source: FRED Federal Reserve Bank of St. Louis, Commerzbank Research

Fed: 25 or 50 basis points cut?

Fed officials have made it clear in recent weeks that a rate cut on September 18 is virtually a done deal as inflation risks have fallen while employment risks have risen. A further cooling in labor market conditions is neither sought nor welcomed, according to Chair Powell. However, today's figures leave it open as to whether a cut of 25 or 50 basis points will be chosen. In any case, the risks for our baseline scenario of only a “small” move have increased. The stronger rise in wages does nothing to change this. In view of the general weakening of the labor market, the Federal Reserve is likely to classify this as a lagging effect.

Table 1 - US employment report

	Aug-24	Consensus	Jul-24	Jun-24	May-24	six month average
Nonfarm payrolls	**142**	165	89	118	216	164
Unemployment rate	**4.2**	4.2	4.3	4.1	4.0	4.1

Source: BLS, Bloomberg, S&P Global, Commerzbank Research

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